

May 29, 2017

Reliance Capital (RELCAP)

₹ 549

Group debt pressure a near term impact...

An unexpected correction of ~15% in Reliance Capital stock in the last five trading days was led by a concern raised on the group company's debt repayment capability due to rating downgrades by Icra, CARE.

What happened

Reliance Communication's bonds - GCX maturing 2019 - amounting to \$300 million corrected significantly from highs, post Icra and CARE downgraded its rating. High interest coverage ratio and future revenue pressure due to competition is adding to concerns. Also, according to media sources, the telecom company has been classified as 'Special Mention Accounts' by banks as interest payment is overdue on its loans. RBI has put bank's exposure to the telecom sector already under watchlist asking them to provide more in the April-June 2017 quarter. All these newsflows led ADAG group stocks to correct from last week.

In its result press release, the management has said "Upon completion of the Aircel merger and sale of the Tower business, RCom's debt will stand reduced by approximately ₹ 25,000 crore. RCom will receive an upfront cash payment of ₹ 11,000 crore from the proposed transaction and the same will be fully utilised for reduction of debt. RCom will also receive 49% future economic upside in the towers business."

Hence, immediate newsflows on group classification as NPA seem slightly overdone, and the same can have a significant impact on all group companies.

Reliance Capital does have exposure (~₹ 1000 crore) to Reliance Communication in its standalone corporate lending book, which is part of its group exposure. Factoring in a write-off with respect to this, an impact of ₹ 40 per share can be seen, which is manageable.

Fundamentals intact, valuations reasonable...

The life insurance consolidation is over. GI stake sale remains on the cards. Healthy growth is seen in AMC business with strong capital markets and excess demonetisation savings, both pushing up AUM. CF and home finance remain strong. We expect PAT to grow at 32% CAGR in FY17-19E. We expect RoE to move to double digits by FY19E. We raise our housing finance business multiple factoring buoyancy in growth and listing prospects. The stock is trading at 1x for FY19E ABV. We revise our earlier SoTP based target price of ₹ 740 to ₹ 718 by raising holding company discount to 15% vs. 10% earlier to incorporate group exposure pain. Maintain **BUY** and advise accumulation only in a gradual manner.

Exhibit 1: Valuation on SOTP basis

Business Segment	FY19E ₹/share
Reliance Life @51%	147
Reliance General Insurance @100%	152
Reliance Broking @100%	17
Reliance AMC @51%	244
Reliance Consumer Finance @100%	141
Reliance Home Finance @100%	142
Total per share of Rcap	844
Holding co. disc	127
Value per share of Rcap	718

Source: ICICIdirect.com Research

Rating matrix	
Rating	Buy
Target	₹ 718
Target Period	12 months
Potential Upside	31%

Key Financials				
₹ crore	FY16E	FY17E	FY18E	FY19E
Revenues	9998	16776	18727	21501
PBT	1733	1459	1974	2560
Adjusted PAT	1101	1079	1490	1894

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	14.3	12.9	9.3	7.3
Target P/E	18.7	16.8	12.2	9.6
P/ABV	1.0	1.1	1.0	0.9
Target P/ABV	1.4	1.5	1.3	1.2
RoE	6.7	6.8	8.8	10.4
RoA	1.6	1.6	1.9	2.3

Stock data	
Market Capitalisation	₹13882 crore
Net worth (FY17)	₹16965 crore
52 week H/L	693/365
Equity capital	₹ 253 Crore
Face value	₹ 10
DII Holding (%)	12.1
FII Holding (%)	18.7

Price performance (%)				
Return %	1M	3M	6M	12M
Reliance capital	-7.4	14.3	38.1	47.9
HDFC LTD	-2.4	11.7	24.4	26.0
LIC housing	4.3	24.6	31.7	54.1

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Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Total income	9997.9	17639.6	18727.5	21501.0
Net Income	7168.2	8543.3	9605.0	11348.7
Operating expense	5369.0	13033.0	12548.5	14300.9
PBT	1732.5	1538.0	1974.2	2559.7
Adjusted Net Profit	1,101.0	1,086.0	1,490.5	1,894.2
% growth	9.9	-1.4	37.2	27.1
EPS (₹)	43.6	42.9	58.9	74.9

Source: Company, ICICIdirect.com Research

Key Ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Net Profit (₹ crore)	969.1	1079.1	1490.5	1894.2
EPS (₹)	38.3	42.7	58.9	74.9
% Growth	-3.3	11.4	38.1	27.1
P/E (x)	14.4	12.9	9.3	7.3
ABV	528.3	493.3	541.0	597.3
Price / Book (x)	1.0	1.1	1.0	0.9
Price / Adj Book (x)	1.0	1.1	1.0	0.9
RoNA (%)	1.6	1.6	1.9	2.3
RoE (%)	6.7	6.8	8.8	10.4

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Sources of Funds				
Capital	253.0	253.0	253.0	253.0
Reserves and Surplus	15313.9	16712.4	17271.0	18696.6
Networth	15566.9	16965.4	17524.0	18949.6
Long and short term borrowing	28035.0	39260.6	31156.2	33176.2
Current liabilities and others	23485.7	25983.2	35395.7	35095.4
Total	67087.6	82209.2	84076.0	87221.1
Application of Funds				
Fixed Assets	542.6	574.7	564.6	575.9
Investments	25279.6	34478.9	28476.5	26428.8
Advances	30105.0	33341.0	37042.4	40712.5
Other current assets	11160.4	13814.6	17992.6	19504.0
Total	67087.6	82209.2	84076.0	87221.1

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (NBFC)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
LIC Housing Finance (LICHF)	704	750	Buy	32,170	32.9	38.3	46.9	21.4	18.4	15.0	4.0	3.3	2.7	1.4	1.4	1.5	19.6	19.1	19.4
Reliance Capital (RELCAP)	547	718	Buy	13,540	38.3	42.7	58.9	14.3	12.8	9.3	1.0	1.1	1.0	1.6	1.6	1.9	6.7	6.8	8.8
HDFC (HDFC)	1,598	1,750	Buy	235,052	45.0	46.9	52.0	35.5	34.1	30.7	7.5	6.5	5.9	2.6	2.4	2.3	21.8	20.2	20.0
CARE (CARE)	1,431	1,750	Buy	4,533	40.0	51.5	58.6	35.8	27.8	24.4	10.3	8.5	8.4	40.9	36.5	41.3	28.8	30.4	34.3
Bajaj Finserv (BAFINS)	4,000	4,900	Buy	71,505	117.5	142.2	201.8	34.0	28.1	19.8	5.0	4.2	3.5	1.9	1.9	2.4	15.7	16.2	19.3
Bajaj Finance (BAJFI)	1,310	1,500	Buy	69,261	24.7	34.0	44.6	53.0	38.6	29.4	9.3	7.4	6.0	3.2	3.3	3.3	21.1	21.8	22.9

Source: Company, ICICIdirect.com Research

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